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BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF WASHINGTON

In the Matter of the Application regarding
the Conversion and Acquisition of Control of
Premera Blue Cross and its Affiliates

NO. G02-45

DECLARATION OF JEFF MERO

1. I am Executive Director of the Association of Washington Public Hospital Districts (“AWPHD”) located at 300 Elliott Avenue West, Suite 300, Seattle, Washington, 98119. I have personal knowledge of the matters stated herein.

2. AWPHD represents more than 50 of Washington state's public hospital districts. As local government taxing districts whose formation is authorized under chapter 70.44 RCW hospital districts hold a unique accountability to the public they serve. AWPHD exists to provide education to and about and advocate on behalf of public hospital districts in Washington State.

3. The public served by hospital districts is largely rural in character. In addition to providing critical health care services in rural communities, many of AWPHD’s members are the largest employers in their communities and contribute significantly to their community’s economic base.

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2 4. A majority of AWPHD's members hold a hospital services contract with
3 Premera Blue Cross or one of its affiliates (hereinafter, collectively "Premera"). Several of
4 AWPHD's members offer insurance to their employees through Premera.

5 5. Over the last few years, hospital districts have struggled significantly to
6 maintain the financial viability of their facilities in the face of skyrocketing medical
7 liability insurance premiums, nursing shortages, shrinking health care payments, and other
8 economic and demographic conditions in the communities they serve.

10 6. AWPHD's members are very concerned that if allowed, the conversion of
11 Premera from a non-profit to a for-profit entity must inevitably and over time refocus the
12 company's primary accountability away from insureds and toward shareholders, creating
13 powerful incentives for a converted Premera to avoid vulnerable and hard-to-serve
14 populations, undesirable geographic areas and small rural communities—all groups served
15 by public hospital districts.

17 7. AWPHD's members are also concerned that the conversion of Premera to
18 for-profit status, in combination with many of the challenges currently faced by the
19 districts, will impede the district members' ability to fulfill their statutory purpose to
20 provide health care services to their communities as required under RCW 70.44.003, and
21 as a practical matter will create serious gaps in the health care "safety net".

23 8. AWPHD members are concerned that any negative effects of a Premera
24 conversion to for-profit status could ultimately translate into negative effects on the
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1 economy of rural communities due to the important economic role public hospital districts
2 play in rural communities.

3 9. AWPHD members are concerned that a for-profit Premera would be
4 attractive to an out-of-state purchaser and if Premera were purchased it could create even
5 more extreme incentives to avoid unprofitable areas of the health insurance market served
6 by public hospital districts.

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8 10. AWPHD members are further concerned that if a for-profit Premera were
9 purchased by another entity it could result in serious consolidation of the health care
10 insurance market that could have a detrimental effect on the districts.

11 11. AWPHD communicates with and collects data from its members that would
12 assist in assessing the impact a conversion of Premera to for-profit status would have on
13 the member hospital districts. Due to members' serious concerns about Premera's
14 proposed transaction, AWPHD has devoted a considerable amount of staff time and
15 resources to monitoring and assessing the proposed Premera conversion's potential impact
16 on member hospitals. AWPHD is prepared to acquire additional expertise to contribute to
17 the understanding of the proposed conversion's unique impact on Washington's public
18 hospital districts.

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20 12. Unless allowed to intervene and participate fully in the proceedings,
21 AWPHD will not be able to fully and accurately assess the potential impact of the
22 proposed conversion on its members and communicate its findings to the Insurance
23 Commissioner.
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13. I declare under penalty of perjury under the laws of the State of Washington that the foregoing is true and correct.

Executed at SEATTLE, Washington, this ____ day of November, 2002.

Jeff Mero, Executive Director
Association of Washington Public Hospital Districts

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